

COUNTY AUDITOR

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To: The Honorable Joe Bolkcom  
Chair, Iowa Senate Ways and Means Committee

From: Grant Veeder  
Black Hawk County Auditor

Date: June 13, 2011

Re: HF 697

I understand that the Senate Ways and Means Committee will be hearing testimony about House File 697. There is one particular aspect of the bill that I would like to address.

Governor Branstad is telling people around the state that one reason the bill is needed is that the residential *rollback percentage* is going to go up 4% a year as long as Iowa crops continue to sell for high prices unless the law is changed. He is mistaken in this.

The *taxable valuation* of residential property would increase 4% a year under those circumstances, but that is much different from the *rollback percentage* going up 4% a year.

As Governor Branstad correctly states, the rollback prevents the taxable value of a property class from increasing more than 4% statewide in a year, and the residential and agricultural classes are tied together so that residential taxable valuation won't increase any more in a year than agricultural taxable valuation, and vice versa, even if one is less than 4%.

The governor points out that the ag class assessed valuation is now rising rapidly because ag values, which are based on productivity rather than on property sales, as in the other classes, are being pushed up by spiking corn and bean prices. He is correct in pointing out that with actual ag valuation growing at 4% or more a year, residential taxable valuation is free to increase at 4% a year.

But at this point, the governor makes a significant error in his assertions. He says the residential *rollback percentage*, not just the taxable valuation, will increase 4% a year. He says it will go from the current 48.5% to 52.5% next year and to 56.5% the year after that. He says the law must be changed to decrease the 4% limit to 2% to prevent a huge windfall in property taxes for local governments.

First of all, an increase in valuation does not automatically guarantee a commensurate increase in taxes. This assumes that a taxing entity will leave its tax rate the same and reap the full yield in valuation increases. In Black Hawk County, the tax rate has decreased six times in the last ten fiscal years, primarily due to increases in property valuation. The consolidated rate for the city of Waterloo decreased five times in those years.

But more importantly, his description of how the rollback calculation works is in error. Iowa law limits *statewide* growth in taxable value due to revaluation of existing property to no more than 4% per year. Statewide, the valuation may go up X% in a year, but an individual property's actual value may go up, it may go down or it may stay the same.

The rollback percentage is the device used to keep a property class's taxable valuation from increasing more than 4% a year. So if the actual residential value goes up 2%, the taxable value goes up 2%, and the rollback percentage stays the same, or 48.5% in the current case – it doesn't go up to 50.5%. If the actual valuation goes up 4%, the taxable valuation goes up 4%, and the rollback percentage stays at 48.5% - it doesn't go up to 52.5%.

If the actual valuation were to go up 5%, the taxable valuation would be held to a 4% increase, and to accomplish this, the rollback percentage would actually have to *decrease* to 48.04%.

This is not just splitting hairs. The difference between what the governor says and how the system actually works is significant. Looked at in terms of an individual property, it works out like this:

Let's say you have a property valued at \$100,000. This year you pay taxes on \$48,500 of that value because the rollback percentage is 48.5%. Let's say next year actual residential valuation goes up 5% statewide. Let's say *your* property was revalued, and the actual value increased 5% also, to \$105,000. According to the governor, the rollback percentage will increase 4% to 52.4%, meaning your taxable valuation would be 52.4% of \$105,000, or \$55,020. But actually the rollback percentage would go *down* to 48.04%, so your taxable valuation would be \$50,442, not \$55,020. That's a difference of \$4,578, or about 9%.

The increase that does occur in this scenario is mitigated by the rollback, as it was intended to be. There are inequities inherent in our system of property taxation, but they should be reviewed with a clear understanding of how the system works.